AS

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 96-007-G - ORDER NO. 96-336

MAY 13, 1996

IN RE: Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies of South Carolina Pipeline Corporation.	))))	ORDER RULING ON PGA AND GAS PURCHASING POLICIES

This matter comes before the Public Service Commission of South Carolina (the Commission) on its annual review of South Carolina Pipeline Corporation's (SCPC's, Pipeline's, or the Company's) Purchased Gas Adjustment (PGA) and Gas Purchasing Policies.

Commission Order No. 87-1122 provides that an annual review be conducted of SCPC's PGA and Gas Purchasing Policies. In SCPC's last review, Order No. 95-1253 in Docket No. 94-007-G, dated June 19, 1995 resulted.

Pursuant to the present filing, Petitions to Intervene were filed by the Consumer Advocate for the State of South Carolina (the Consumer Advocate), Nucor Steel, a Division of Nucor Corporation (Nucor Steel), South Carolina Electric & Gas Company (SCE&G), Lancaster, York, and Chester County Natural Gas Authorities (the Authorities), the City of Orangeburg (the City), and Greer Commission of Public Works (Greer).

A hearing was held on this matter on May 2, 1996 at 10:30 a.m. in the offices of the Commission with the Honorable Rudolph Mitchell, Chairman, presiding. SCPC was represented by Mitchell Willoughby, Esquire, and Sarena D. Burch, Esquire. SCPC presented the testimony of Max Earwood and Carlette L. Walker. The Consumer Advocate was represented by Elliott F. Elam, Jr., Esquire. Nucor Steel was represented by Russell B. Shetterly, Esquire, SCE&G was represented by Francis P. Mood, Esquire, and the Authorities were represented by Emil W. Wald, Esquire. The Commission Staff (the Staff) was represented by F. David Butler, General Counsel. The Staff presented the testimony of Norbert M. Thomas and Brent L. Sires.

At the opening of the hearing, Russell B. Shetterly, Esquire, announced that although Nucor Steel had various concerns, it would not actively participate in the hearing. Further, neither the City, nor Greer attended the hearing.

SCPC presented the testimony of Carlette L. Walker. Walker described the purchasing practices of SCPC with regards to the gas recovery for the fourteen (14) month period of December 1994 through January 1996, the review period in this case, and proposed certain tariff changes. According to Walker, SCPC's gas cost recovery is based on the recovery of delivered gas costs. Delivered gas costs are both the actual purchased price paid for gas, and the actual transportation costs incurred for the delivery of the gas to South Carolina. Each month, actual delivered gas costs are aggregated and divided by the delivered volume. The result of this calculation is the weighted average cost of gas (WACOG) rate. Prior to making these calculations, certain gas cost assignments are made.

In compliance with Order No. 94-181, 20,000 dekatherms of the least expensive daily delivered gas volume is reserved for the WACOG. In compliance with Commission Order No. 83-873, delivered gas costs are assigned to competitive gas sales. Gas costs assigned to competitive sales are determined by reviewing each competitive sales price less the contractual markup. The contractual markup is a maximum amount of margin that SCPC is allowed to earn on a sale. According to Walker, in no case would gas cost be assigned that would result in realizing more than the contractual markup. Further, in compliance with Commission Order No. 90-729, delivered gas costs are assigned to those volumes of gas delivered into storage. The WACOG is then determined.

SCPC has two types of customers, sale-for-resale customers and industrial customers. In compliance with the 11/1/90 approved gas tariff approved by Order No. 90-729, the monthly weighted average cost of gas rate is added to the tariff markup of $0.0753 to determine the billing rates for gas deliveries to sale-for-resale customers. For industrial customers, the monthly WACOG is added to the negotiated contract markup to determine the billing rate. All customers requiring firm gas deliveries have contracts with Pipeline. The contracts provide for the delivery of a maximum daily quantity (MDQ) of gas. In compliance with the 11/1/90 approved gas tariff, all upstream demand charges incurred by Pipeline are evenly allocated to the firm customers, based on their contract MDQ volumes. These demand costs are a pass through charge. According to Walker, there are no markups nor margin associated with these demand charges.

The sale-for-resale customers are allocated their pro rata share of upstream pass through demand charges based on their contracted MDQ volumes. In addition to these charges, the 11/1/90 approved gas tariff provides for the recovery of a SCPC cost of service demand charge. The rate for the monthly cost of service demand charge is specifically approved in the tariff, and applied to the customers contract MDQ volume.

Walker states that Order No. 94-181 ordering that the least expensive delivered gas cost for 20,000 dekatherms per day be reserved for the WACOG has substantially impacted SCPC and its sale-for-resale customers success in competing with industrial customers' alternate fuels. According to Walker, SCPC has lost $398,993.23 of margin during this PGA period as a result of compliance with this Order.

Walker went on to describe various proposed tariff changes. SCPC proposes that interruptible customers buying from system supply share in the upstream demand costs. Walker states that in order for this to be possible, various changes should be made. First, a change should be made in the PGA to paragraph 7 (b)(13). A paragraph would have to be added to include the upstream demand cost associated with the reserve firm capacity. Second, Walker proposes a change to paragraph 7 (a)(2) to provide for the appropriate recovery of property taxes on underground storage inventory. Next, Walker proposes a change to paragraph 7 (b)(10) in order that demand costs be reduced to the firm customers. Walker also suggests a change to paragraph 7 (b)(6) to eliminate any language to the recovery of gas costs associated with SCPC's owned and operated production properties, since these have been divested by the Company. Lastly, Walker proposes a change to paragraph 7 (b)(8) to control administrative costs. The proposed change to this paragraph is to delete the following: "In such case, the highest priced commodity source of gas available which comes closest to providing a competitive rate to the as-fired cost of alternative fuel shall be assumed to be delivered incrementally to the customer."

Further, Walker commented on the hedging program authorized by this Commission in Order No. 95-1253. In compliance with this Commission Order, according to Walker, all volumes of gas that are assigned a WACOG cost (system supply) are allocated a pro-rata share of any realized gain or loss from the Hedging Program activities. According to Walker, compliance with the Commission's Order has resulted in a savings to the Company, and therefore its customers, based on the number of futures contracts purchased for each of the months of the program. The Hedging Program has resulted in gas purchases that were $366,901 less in cost than the average market price.

Walker recommends that the Commission approve the continued operation of the Pilot Program for another twelve (12) month period, and that the percentage of system supply that can be hedged be increased from the present 30% to 60%. Walker attached to her testimony a draft of revised gas tariff pages which incorporate all changes included in her testimony for Commission review.

Max Earwood, Vice Chairman of the Board of Directors of SCPC also testified. Earwood testified as to SCPC's purchasing practices during the review period of December 1994 through January 1996. According to Earwood, the review period was marked by times of unusual and extreme weather conditions, which provided challenges to the daily gas supply management of Pipeline's system. Earwood testified that, in spite of the volatility of the unusual weather periods experienced during the review period, Pipeline was able to maintain a reliable and efficient gas supply to its customers.

According to Earwood, SCPC's term gas contracts remained essentially the same throughout the review period. Earwood stated that those contracts involving 12 suppliers total 155,534 dekatherms per day, and range in terms from one to four years. The contract storage on both Southern and Transco remains an important part of SCPC's gas supply, according to Earwood. Further, SCPC continues to purchase a portion of its supply on the spot market. Earwood continued his testimony by stating that beginning in November 1997, SCPC will begin receiving 77,700 MCFs per day in additional firm capacity as a participant in Transco's Sunbelt Pipeline Expansion Project.

Earwood stated that the Industrial Sales Program Rider (ISPR) continues to work well. According to Earwood, this allows SCPC and its resale customers to maintain sales to industrial customers with competitive alternatives by reducing Pipeline's rates. The industrial customers are able to use alternate fuels in the event that the delivered cost of natural gas is higher than the price of the installed alternate fuels. According to Earwood, the ISPR ensures that the low cost spot gas not needed to serve interruptible customers is allocated to firm customers.

With regard to the tariff changes proposed by Ms. Walker, Earwood noted that if implemented, all customers buying from system supply will contribute to the demand costs associated with the reserve capacity, including interruptible customers.

The Staff presented the testimony of Norbert M. Thomas, who stated that, in his opinion, the Company is in compliance with approved tariffs and prior Commission Orders, and that gas costs as presented by the Company are accurately stated and that amounts shown fairly represented the Company's costs incurred for the period under review.

Brent L. Sires, Utility Rate Analyst also testified. Sires testified that the Company continues to demonstrate that it places a high level of importance on securing reliable gas supplies and on making prudent decisions in purchasing its gas supplies to balance its customer profile and system requirements with the existing supply and capacity options. No supply problems were noted on the Company's system during the past winter period.

Sires observed that Pipeline puts forth substantial efforts in shopping around for the lowest cost reliable supplies which are available to its system. Sires commented on the Company's Hedging Program, and stated that Staff did not have an objection to the Company's proposal to continue the Pilot Program for another 12 months period, and would not oppose the Company's proposal to increase the percentage of system supply that can be hedged from the present 30% to 60%. Sires calculated a savings in gas costs of some $1.5 million through the use of the program. Staff does not oppose the proposed tariff changes. However, Sires does state that, should the Commission approve the proposed change to paragraph 7 (b)(13), that a certain methodology be identified in the PGA for determination of the cost associated with the reserve capacity. Sires went on to describe that methodology in his testimony.

Sires further testified that Staff had reviewed Pipeline's ISPR Program and does not take exception to the program. In fact, Sires stated that the volatility of the industrial alternate fuel prices still warrants the need for the ISPR Program in today's market. Sires saw no need to propose any changes or modifications to the mechanics of the ISPR Program.

The Commission has studied the testimony and the entire record in this case, and must compliment both the Company and the Staff on their excellent presentations. We believe that the evidence shows that the gas purchasing practices of SCPC for the review period in this case were prudent, and that the Company was in full compliance with the Commission Orders with regard to its PGA during the review period. The Commission has examined the various proposed changes to the PGA proposed by the Company and the Staff, and believes that the changes should be adopted. The Commission agrees with the concept of the interruptible customers contributing to the upstream demand costs on purchases from system supply, and the other tariff changes as proposed by Pipeline, as well as with the Staff's proposed methodology for determination of the cost associated with the reserve capacity. We also hold that the evidence shows that the ISPR Program is still appropriate in today's competitive world, and that no modifications need be made to it at this time.

With regard to the Company's Pilot Hedging Program, we believe that the Company and the Staff have demonstrated considerable savings in gas costs through the use of this program. We agree that the Pilot Program should be continued for another 12 month period, and that the percentage of gas be expanded under the program from 30% to 60%. We also hold that the reporting requirements instituted by us be continued.

We believe that the practice established by the Commission's Order ordering that 20,000 dekatherms of the lowest cost gas be placed in the WACOG should continue. We are somewhat concerned, however, as to the amount of margin that SCPC is losing as a result of this Order, and we hold that as a part of the monthly reports on hedging, as established in the last SCPC PGA Order, that the Company also report on amounts of monthly margin loss and any other impacts, due to the 20,000 dekatherms of low cost gas being injected into the WACOG.

This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Rudolph Mitchell
Chairman

ATTEST:

Charles W. Ballentine
Executive Director

(SEAL)